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SUBJECT: DENMARK JANUARY ECONOMIC HIGHLIGHTS

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Spending or Reform

¶1. (SBU) The Chairman of the Economic Council Hans Joergen Whitta-Jacobsen, who assumed his post on January 1, revised the Council's recommendations on economic policy. The Council no longer finds that the time is right for additional stimulus, but rather believes that reforms of social welfare benefits, especially early retirement and unemployment benefits, are much more pressing matters to ensure economic stability in the long run. The economy may still need further stimulus, but developments in 2010 should be watched until the planning of the 2011 budget in August before any new initiatives are prepared. The Minister of Finance declared that no reform of the early retirement scheme is forthcoming, and given the PM's recent statements indicating that fiscal belt tightening may be in the offing (reftel), the Government seems more willing to cut spending on the margins rather than instigate any major reform of the benefit schemes or the labor market.

Labor Negotiations Slow Going

¶2. (U) New labor market accords are being negotiated this winter and spring, and from the outset the negotiations have been tough. Employers have stated that the financial crisis leaves very little room for wage increases and the diminished competitiveness of Danish firms needs to be restored before pay increases can be justified. A recent Green's Analysis poll showed that 57% of Danish CEOs expect a zero real wage increase and 9% expect decreases. At the same time, the Danish Confederation of Trade Unions (LO) stated expectations of wage increases of 2.5% in 2010 and 3% in 2011, placing the negotiators rather far apart. In addition, negotiators for labor are demanding increased protection against wage pressures due to competition from foreign unorganized labor. Labor has indicated willingness to trade wage increases for social regulation like maternity leave, flexible work hours, equal pay for men and women, and minimum wage regulations during the negotiations and in the past. A Gallup poll showed that only 31% think wages are the most important issue.

¶3. (SBU) Many local observers are projecting that the negotiations could lead to a general labor market conflict. The positions are far apart, the labor unions have been out saying they have plenty of funds for months of conflict, and a one-day work stoppage at Carlsberg breweries is being interpreted as indicative of the unions' willingness to use conflict to achieve their aims. On the employer side, a poll from Berlingske Research showed 77% of CEOs preferring a conflict to real wage increases. The last major labor conflict was in 1998; historically, general labor market conflicts have arisen every 12 years.

Denmark by the Numbers

¶4. (SBU) The National Bank lowered its leading interest rate on January 8 and again unexpectedly on January 15, leaving the rate at 1.05%, with the spread to the ECB rate at only 5 basis points. The Harmonized Consumer Price Index (HCPI inflation) rose 1.1% in 2009 compared to an increase of 3.6% in 2008. Seasonally adjusted production fell 1.8% from November to December 2010, continuing the plummet that has caused production to fall 22.6% from December 2008 to December 2009. Danish goods trade experienced a severe blow in 2009 with imports down 21% or DKK 117 billion (USD 21.54 billion) compared to 2008, and exports down a little less by DKK 95 billion (USD 17.49 billion) or 16%. Goods exports increased by 0.7% in December and goods imports increased 2.4% from November. The composite consumer confidence indicator was at 1.1 in January, a move toward the positive and the highest level since December 2007. Business confidence indicators, on the other hand, remained negative and basically unchanged in December, with the construction sector still deeply depressed. Extrapolating from the most recent OECD statistics, we estimate total seasonally adjusted Danish unemployment by end of January at 7.7%.

Danish National Bank Stress-Tests Banking Sector

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¶5. (U) The National Bank finished stress-testing the fourteen largest Danish banks in January (80% of the market) and found that the Danish banking sector is generally adequately capitalized. The Bank judges that the infusion of capital via banks availing of Bank Package 2 assistance, stock issuance, and other means, will ensure that the banks will survive 2010-2011, though some banks may need to raise additional capital by the end of 2011. The Bank recommends no new initiatives to help the sector, but predicts that the consolidation in the banking sector will pick up through 2010 with a substantial reduction in the number of banks on the Danish market. Several CEOs in the Danish banking sector have recently made similar projections. The National Bank's most likely scenario for 2010-2011 is total loan losses of 1.5% of all lending or DKK 50-70 billion (USD 9.2 - 12.9 billion), almost three times the amount of losses in 2009 which was at 0.52% of all lending.

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